

DIRECT TESTIMONY
OF
WILLIAM R. JOHNSON

WATER DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

UTILITIES, INCORPORATED
AND
NUON ACQUISITION SUB, INCORPORATED

DOCKET NO. 01-0480

OCTOBER 10, 2001

1 Q. Please state your name and business address.

2 A. My name is William R. Johnson. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4
5 Q. How long have you been employed by the Illinois Commerce Commission?

6 A. I have been employed by the Illinois Commerce Commission ("Commission") since
7 September 1, 1994.

8
9 Q. Please state briefly your qualifications.

10 A. I received a Bachelor of Arts degree in Economics from Sangamon State University
11 (now University of Illinois at Springfield) in May, 1990 and a Master of Arts degree in
12 Economics, also from Sangamon State University, in December, 1993.

13
14 In September 1994, I was assigned to the Commission's Public Utilities Division
15 as an Economic Analyst for the Rates Department. In that capacity I reviewed and
16 analyzed tariff filings by electric, gas, and water utilities with regard to cost of
17 service and rate design. I made recommendations to the Commission on such
18 filings and participated in docketed proceedings as assigned. In January 2000, I
19 was reassigned to the Water Department of the Financial Analysis Division. My
20 duties include 1) evaluating rate filings; 2) assisting the Consumer Services Division
21 in handling inquiries and complaints, upon request; 3) evaluating testimony
22 presented by utilities; 4) testifying on behalf of Commission staff ("Staff") in rate
23 proceedings, applications for certificates, applications for reorganizations, and

other formal proceedings which contain water and/or sewer related issues; 5)
reviewing and performing cost-of-service studies; and 6) reviewing rate design
issues.

Q. Have you previously testified before the Commission?

A. Yes, I have previously testified before the Commission on numerous issues related
to my duties.

Q. What is the purpose of this proceeding?

A. Utilities Incorporated ("UI") and Nuon Acquisition Sub, Incorporated ("NAS"),
(collectively "Petitioners") have filed a joint application for approval of agreement
and plan of merger between the Companies. The proposed merger will result in the
parent company of NAS, nv Nuon ("Nuon") acquiring control of UI and the twenty-one
UI operating subsidiaries.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to determine whether the proposed merger meets
the requirements of Section 7-204 of the Public Utilities Act ("Act"). Specifically, I
will be examining Subsections 7-204 (b)(1), (b)(5), (b)(6), and (b)(7).

Q. Please describe UI and its Illinois territory.

A. UI owns approximately 76 water and sewer utilities spread throughout 16 states,
including: Illinois, Arizona, Florida, Georgia, Indiana, Louisiana, Maryland,

Mississippi, North Carolina, Nevada, New Jersey, Ohio, Pennsylvania, South Carolina, Tennessee, and Virginia. UI has been involved in the water and sewer industry for over 35 years and currently has twenty-one operating subsidiaries in Illinois (Direct testimony of Carl Wenz for Petitioners, pp. 3-4).

Q. Are there any other utilities that will be affected by the proposed merger?

A. Yes, in addition, UI is in the process of acquiring three additional operating utilities in Illinois. As of this writing the Petition for approval of the Wildwood Utility Company acquisition is pending in Docket No. 01-0178, and the acquisitions of Community Service Corporation (Docket No. 00-0763) and Westlake Utility Service Company (Docket No. 01-0050) were approved by the Commission but the transactions have not yet been finalized.

Q. Please describe Nuon.

A. Nuon is an energy distributor in the Netherlands that serves approximately 2.6 million customers in the Netherlands. The water division of Nuon holds a 10 percent market share and serves approximately 700,000 customers in the Netherlands (Wenz, p. 4). However, Nuon does not offer any water or sewer services in Illinois or the United States (Wenz, pp. 6 & 14). Nuon also provides residential and business customers with gas and heat in the Netherlands (Wenz, p. 4).

Q. Please describe NAV.

69 A. NAV is an Illinois Corporation and a wholly owned subsidiary of Nuon. The
70 Agreement and Plan of merger signed by the Petitioners indicates that NAV shall
71 merge with UI at the effective time, and as a result of the merger the corporate
72 existence of NAV shall cease and UI shall continue as the surviving corporation.

73
74 Q. Do you agree with the Petitioners that UI's ability to provide adequate, reliable,
75 efficient, safe and least-cost public utility service to its customers will not diminish
76 because of the proposed merger, as required by Subsection 7-204(b)(1) of the
77 Act?

78 A. Yes, I do. Currently all of UI's Illinois subsidiaries have entered into a Commission
79 approved contract with Water Service Corporation ("WSC") for operational
80 services. The merger will not impact UI or its contract with WSC. Since the Illinois
81 subsidiaries' relationship with WSC will not be affected by the merger, the Illinois
82 subsidiaries will rely on essentially the same management, technology, processes
83 and people that are currently providing service (Wenz, p. 10). Given UI's affiliation
84 with WSC, I believe the expertise is there to meet the daily challenges of adequacy,
85 reliability, efficiency, and safety. Additionally, the Petitioners stated "The merger is
86 a parent company merger and will only result in NUON acquiring indirect control
87 over the Illinois Subsidiaries." (Wenz, p. 10).

88
89 With respect to providing least-cost service, since the Illinois subsidiaries'
90 relationship with WSC will not be affected by the merger, the Illinois subsidiaries
91 will, again, rely on essentially the same management, technology, processes and

92 people that are currently providing service. UI has national purchasing power on
93 expenditures such as insurance, vehicles and meters and has access to capital for
94 improvements and expansion at reasonable rates. Furthermore, UI has access to a
95 large pool of human resources from which to draw upon for construction,
96 engineering, operations, accounting, regulation, data processing, and customer
97 service activities.

98
99 For the above reasons, I find no reason to dispute the Petitioners' statement
100 regarding their ability to provide adequate, reliable, efficient, safe and least-cost
101 public utility services.

102
103 Q. If the merger is approved, will UI remain "subject to all applicable laws, regulations,
104 rules, decisions and policies governing the regulation of Illinois public utilities," as
105 required by Subsection 7-204(b)(5) of the Act?

106 A. Yes, as UI will continue to be under the jurisdiction of the Commission, it will remain
107 subject to all applicable laws, regulations, rules, decisions, and policies governing
108 the regulation of public utilities.

109
110 Q. Will the proposed merger have a significant adverse effect on competition in those
111 markets over which the Commission has jurisdiction, which Subsection 7-204(b)(6)
112 of the Act discourages?

113 A. No it will not. As the Petitioners have pointed out, Nuon does not offer any water or
114 sewer services in Illinois, and the merger will not result in the elimination of a

competitor in the water and sewer services market (Wenz, p. 14). Additionally, Nuon has no plans to enter the water and sewer markets in Illinois and it does not have authorization to provide those services anywhere in Illinois (Ibid.).

Since the only change that is occurring is the changing of a parent company, and UI will survive as a wholly-owned subsidiary of Nuon, Staff agrees with the Petitioners that the proposed merger is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction, as required by Subsection 7-204(b)(6) of the Act.

Q. Have the Petitioners demonstrated that “the proposed reorganization is not likely to result in any adverse rate impacts on retail customers,” as required by Subsection 7-204(b)(7) of the Act?

A. Yes, they have. The Petitioners are not requesting any rate increases or changes to tariffs as a result of the merger. Additionally, the Petitioners are not seeking recovery of merger costs; therefore, the merger will not result in an increased cost-of-service or any increase in rates (Wenz, pp.15-16). Since the Petitioners plan to operate under current rates without interruption or change, I see no adverse rate impacts on customers.

Q. What are your recommendations for the Commission in relation to NAV merging with UI?

137 A. I recommend the Commission find that the reorganization satisfies the provisions of
138 Subsections 7-204(b)(1), (b)(5), (b)(6), and (b)(7) of the Act.

139

140 Q. Based on the review above, do you oppose the merger between UI and Nuon?

141 A. No, based on my review above, I do not oppose the merger.

142

143 Q. Does this conclude your direct testimony?

144 A. Yes, it does.